

096499

13-0038  
3.04.07



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

17  
13  
5

RESOURCES AND ECONOMIC  
DEVELOPMENT DIVISION

JUL 13 1972

B-163484



Dear Mr. Secretary:

We have examined into the fee assessment policies and practices of the Agricultural Stabilization and Conservation Service (ASCS), Department of Agriculture, concerning its processing of price-support loans and storage facility and equipment loans authorized under programs of the Commodity Credit Corporation. <sup>514</sup> <sup>42</sup>

We reviewed applicable legislation, the Office of Management and Budget instruction, and ASCS records relating to the establishment and administration of loan-processing fees. We also interviewed ASCS officials. Our review was made primarily at ASCS headquarters in Washington, D.C. <sup>27</sup>

Title V of the Independent Offices Appropriation Act, 1952 (31 U.S.C. 483a), and Circular No. A-25 of the Office of Management and Budget state that Government activities which provide identifiable recipients with special benefits or privileges should be financially self-sustaining to the maximum extent possible. The act states that fair and equitable fees should be prescribed which take into consideration direct and indirect costs to the Government, value to the recipients, public policy or interest served, and other pertinent facts.

Circular No. A-25 states that, in addition to those costs directly related to the activity, the cost to the Government should include a proportionate share of an agency's management and supervisory costs and that the cost of providing the service should be reviewed every year and fees should be adjusted as necessary.

Although the Government's general policy is to recover to the fullest extent possible the costs of providing special services to identifiable recipients, our review showed that the fees charged for processing price-support loans were not directly related to the costs that should have been recovered and that fees were not charged for processing storage facility and equipment loans. Further, ASCS had not made an annual review of its costs to process these loans, contrary to Circular No. A-25.

~~701209~~ 096499

PRICE-SUPPORT LOANS

ASCS charges recipients of price-support loans a fee of \$8 for each loan secured by farm-stored collateral and a fee of \$4 for each loan secured by warehouse-stored collateral. These fees were not sufficient to recover the costs incurred for processing such loans.

ASCS records showed that the fees were intended to cover administrative costs incurred by ASCS county offices for processing the loans. ASCS officials told us that the specific costs to be recovered were those incurred by county offices for (1) preparing loan documents and related records and disbursing loan proceeds for loans secured by farm-stored and warehouse-stored collateral and (2) initially inspecting and determining the quantity of farm-stored collateral.

The present fees were established in 1969. According to an ASCS official, the fees were based on information reported for 1967 under the ASCS work-measurement system. Under this system county offices report units of workload accomplished for each major program in a reporting year. Our review of the information reported for 1967 revealed that there was little relationship between the costs intended to be recovered and the fees that were established. Moreover, the fees have remained the same since they were established, although county office expenses have increased significantly. For example, the amount of county office salaries increased 15 percent from 1967 to 1971.

To determine whether the fees charged were adequate to recover more current administrative costs, we analyzed information in the work-measurement-system reports for the year ended April 30, 1970--the latest year for which such reports were available at the time of our review.

Our analysis showed that the county offices' direct costs for making price-support loans during that year averaged \$12 for each loan secured by farm-stored collateral and \$6 for each loan secured by warehouse-stored collateral, compared with the fees of \$8 and \$4, respectively.

The table below compares, for the year ended April 30, 1970, estimated loan-fee revenues with estimated county office direct costs based on workloads.

<u>Location of loan collateral</u>	<u>Number of loans</u>	<u>Estimated revenues</u>	<u>Estimated direct costs</u>	<u>Excess of direct costs over revenues</u>
Farms	248,200	\$1,986,000	\$3,086,000	\$1,100,000
Commercial warehouses	<u>231,800</u>	<u>927,000</u>	<u>1,278,000</u>	<u>351,000</u>
Total	<u>480,000</u>	<u>\$2,913,000</u>	<u>\$4,364,000</u>	<u>\$1,451,000</u>

The estimated costs do not include a proportionate share of county office overhead costs which totaled about \$28 million or a share of the overhead costs of the ASCS national and State offices. These amounts were not readily determinable from ASCS records.

During the year ended April 30, 1970, ASCS also collected about \$2 million from fees of 0.5 cent a bushel or 1 cent a hundredweight on loans settled by forfeiture of collateral. ASCS records showed, and agency officials stated, that the forfeiture fees, which were in addition to the \$8 and \$4 fees, were intended to cover the costs of processing loan applications; but such records did not show, nor could the officials explain, how the forfeiture of loan collateral related to the processing of loan applications.

Moreover, such records did not show, nor could the officials explain, why such fees were established on the basis of quantities forfeited when the administrative costs intended to be recovered did not vary with the quantities involved.

#### STORAGE FACILITY AND EQUIPMENT LOANS

Our analysis of ASCS work-measurement-system reports showed that, during the reporting year ended April 30, 1970, county offices incurred direct costs of about \$761,000 for processing about 21,700 new storage facility and equipment loans--an average direct cost of \$35 a loan. The \$35 cost was based on the direct cost of the loan-processing activities. It did not include any part of county office or ASCS national and State offices' overhead costs.

Prior to May 30, 1969, each applicant for whom a storage facility and equipment loan was approved was charged a \$5 fee for processing the loan documents. According to the work-measurement system, the following activities were related to

the processing of loan documents: preparing, checking, and filing loan-related documents; checking for liens; inspecting the facility after installation or construction; and disbursing the loan proceeds. Our review of the records applicable to the establishment of the \$5 fee showed little relationship between the costs of such activities and the fee charged.

ASCS terminated its policy of charging fees for processing such loans on May 30, 1969. ASCS officials told us, and the records showed, that the \$5 fee was eliminated because (1) the interest rate on storage facility and equipment loans was increased from 4 percent to 6 percent and (2) elimination of the fee would simplify compliance with provisions of the Truth-in-Lending Act (15 U.S.C. 1601), which require that fees, such as those for processing a loan application, be included in the true interest rate reported to the borrowers.

According to ASCS records, the increase in interest rates was for the sole purpose of covering increased borrowing costs; therefore the increase should not have had any bearing on the charging of fees to recover costs of processing loan applications. Regarding the Truth-in-Lending Act, an ASCS official told us that ASCS was concerned that including the fee in the determination of the interest rate would distort the interest for small loans and would result in complaints from the borrowers. In our opinion, such concern did not justify discontinuation of the service fee.

#### RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

To conform to the provisions of title V of the Independent Offices Appropriation Act, 1952, and of Circular No. A-25 of the Office of Management and Budget, we recommend that ASCS

- systematically establish fees for processing price-support loans and storage facility and equipment loans on a basis that will provide for recovering the related costs, including overhead costs, to the fullest extent possible, taking into consideration value to the recipient, public policy or interest served, and other pertinent facts and
- review the costs of these activities every year and adjust the fees as necessary.

- - - -

The foregoing matters were discussed with ASCS officials who told us that the policies followed in charging fees for processing loan applications were being studied by the Department. We shall appreciate receiving your comments and advice on the actions that will be taken to comply with the requirements of the act and Circular No. A-25.

We wish to acknowledge the cooperation extended to our representatives during this review.

C1-5 R1 Copies of this report are being sent today to the Chairmen, House and Senate Committees on Government Operations; the Chairmen, House and Senate Committees on Appropriations; the Chairman, Subcommittee on Agriculture and Environmental and Consumer Protection, Senate Committee on Appropriations; and Congressman L. H. Fountain, pursuant to his request. <sup>1500</sup> <sub>2300</sub> 5.321

Copies are also being sent to the Director, Office of Management and Budget; the Administrator, Agricultural Stabilization and Conservation Service; and the Inspector General, Department of Agriculture.

Sincerely yours,



Director, Resources and  
Economic Development  
Division

The Honorable  
The Secretary of Agriculture